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WILLIAM T FUJIOKA
Chief Executive Officer

February 22, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "WTF", followed by a stylized flourish.

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

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Fifth District

SACRAMENTO UPDATE – LEGISLATIVE ANALYST'S OFFICE REPORTS

On Wednesday, the Legislative Analyst's Office (LAO) released its annual analysis of the Governor's Proposed Budget for FY 2008-09. Since the release of the Governor's Proposed Budget in January, the State's fiscal condition has deteriorated, with the deficit increasing approximately \$1.5 billion, to \$16 billion, primarily as a result of persistent problems in the housing sector and high energy prices. This outlook was substantiated by declining receipts in the State's personal income, corporate income, and sales taxes, through the first six months of the fiscal year. The LAO notes that even if the Legislature were to adopt the Governor's proposals in their entirety, the Budget would still not be balanced. In addition, the State's structural shortfalls would continue, reaching an estimated \$4 billion operating deficit in FY 2009-10, before declining to between \$2 billion and \$3 billion through FY 2011-12.

The LAO's Alternative Budget

In addition to its usual commentary on the State's economic and fiscal outlook in the Perspectives and Issues and the accompanying Analysis of the Budget Bill, the LAO presented a detailed Alternative Budget Approach. Both reports are available at www.lao.ca.gov. It contains recommendations for targeted program reductions, the shift of some programs to local government, a different approach to K-14 education funding, and increased revenues through the elimination of selected tax credits or exemptions culminating in balanced budgets through FY 2012-13. Many of the LAO's Alternative Budget recommendations are complex or require clarification. **We will work with departments to estimate the impact of the LAO's Alternative Budget on the County.**

The LAO indicates that their Alternative Budget approach contrasts sharply with the Administration's expenditure plan which the LAO characterized as flawed because it would impose across-the-board reductions without regard to the relative importance of various programs.

The major components of the LAO's proposal are listed below. Each is discussed briefly.

Deficit Financing Bonds	\$4.8 billion
Parole Realignment	\$0.5 billion
Other Spending Solutions	\$2.2 billion
Revenues	\$2.6 billion
K-14 Education Funding	\$4.7 billion

Deficit Financing Bonds. Similar to the Governor's Proposed Budget, the LAO's proposal also assumes the sale of \$3.3 billion in Economic Recovery Bonds (ERBs) and suspension of a \$1.5 billion transfer to the Budget Stabilization Account for a prepayment of debt on the ERBs.

Parole Realignment. One of the major components of the LAO's plan is Parole Realignment. This is a nearly \$500 million realignment of responsibility for the supervision of some lower level criminal offenders from State prison. Under the plan, lower level felons would be placed under county probation supervision upon release from prison. Responsibility for parole supervision currently rests with the State. Funding would come from the transfer of property taxes from local water and waste special enterprise districts, a portion of Proposition 172 sales tax revenues, and a share of Vehicle License Fees currently used to support the Department of Motor Vehicles. We are working with Probation and other County departments to assess the impact of this proposal.

Other Spending Solutions: Federal Safety Net Care Pool (SNCP) Payments. The LAO recommends \$2.2 billion in spending solutions. Among the many items in this category is an LAO recommendation to shift **additional** Federal funds from public hospital SNCP payments to offset State General Fund spending for the following programs: Expanded Access to Primary Care, California Children's Services (CCS), Genetically Handicapped Persons Program, the Medically Indigent Adult Long-Term Care Program, and certain clinic grant programs, for an additional State savings of \$91 million in FY 2008-09. The Governor's Proposed Budget recommended a shift of \$54.2 million from the same public hospitals to the portions of the CCS, Genetically Handicapped Persons, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. The LAO concurred with this recommendation. We are working with the Department of Health Services to evaluate this proposal.

Major Revenue Proposals. The LAO recommends \$2.6 billion in revenues. The major revenue proposals recommended by the LAO, which total \$2 billion, would: 1) reduce the dependent care tax credit from \$294 to \$94, the same level as the personal exemption; 2) limit the amount of research and development (R&D) tax credits that may be claimed in any one year to two-thirds of a taxpayer's liability. According to the LAO, State-level credits likely are not as effective as federal credits and there are now more than \$10 billion in unused state R&D credits being "carried-over" to future years by taxpayers; 3) limit net operating loss carryovers to 50 percent of a taxpayer's net income in a given year to adjust for the impact on those businesses that are not subject to highly cyclical profits; and 4) phase out Enterprise Zone Programs because, according to the LAO, many studies question whether they are efficient or cost-effective tools for improving the economic conditions of targeted areas.

K-14 Education Funding. The LAO proposes to reduce current year funding to K-14 education to the statutory minimum and recover unspent categorical grant funds. In FY 2008-09, the LAO proposes to suspend Proposition 98 which would reduce school funding by \$4.7 billion, approximately \$400 million less than the minimum guarantee. The Administration's proposal would reduce school funding to a level which is \$4 billion less than the minimum guarantee.

LAO Recommendations Unrelated to the Alternative Budget: Increase the Tax on Gasoline. The LAO indicates that as the State highway system ages, the costs to maintain and rehabilitate State highway miles are increasing much faster than the revenues which pay for them. The LAO recommends that the Legislature: 1) raise the State gas tax by at least 10 cents per gallon and index it for inflation; 2) consider taxing alternative fuels such as ethanol and natural gas which are taxed at a lower rate than gasoline and diesel fuel; and 3) explore mileage-based fees and additional toll roads.

Summary of Proposals Potentially Affecting the County

Those selected proposals with the potential to affect the County are listed in Attachment I. They are discussed in more detail in Attachment II which also provides the LAO's commentary and recommendations on the Governor's FY 2008-09 Proposed Budget with an emphasis on those items discussed in our February 1, 2008 Board Memo on the fiscal and programmatic impact of the Governor's Proposed Budget on the County. Attachment II also includes additional LAO proposals which may be of County interest.

We will continue to keep you advised.

WTF:GK
MAL:IGA:hg

Attachments

**SELECTED COMPONENTS OF THE LAO'S FY 2008-09 ALTERNATIVE BUDGET
POTENTIALLY AFFECTING THE COUNTY**

HEALTH

Health Care Services, including Medi-Cal

- Increase shift of federal funds from public hospitals to other State health programs
- Reinstate quarterly status reporting and eliminate continuous eligibility for children
- Reduce certain payments to hospitals
- Eliminate county cost of doing business
- Alternative funding sources for Proposition 36

SOCIAL SERVICES

County Administration

- Extend IHSS redetermination period by six months

Foster Care

- Rescind January 2008 rate increase and reduce Foster Family Agency rates by five percent

CRIMINAL JUSTICE

California Department of Corrections and Rehabilitation

- Reclassification of lower-level felonies

Various Criminal Justice Agencies

- Reduce, eliminate, or shift local assistance funding
- Parole realignment

Source: Legislative Analyst's Office, The 2008-09 Budget Perspectives and Issues

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Summary of the LAO's Comments and Recommendations

HEALTH

Medi-Cal Provider and Managed Care Rates. For FY 2008-09, the Governor's Proposed Budget would reduce Medi-Cal provider rates Statewide by \$602.4 million for physicians and other medical and service providers and make a proportionate reduction in Medi-Cal managed care rates. The Legislature approved a modified version of the Governor's FY 2008-09 proposal that provides for a reduction of \$544.3 million effective July 1, 2008, delaying the Governor's proposal by one month to the start of the new fiscal year. The Assembly Budget Committee indicated that the purpose of the delay is to allow time for further review of provider rates during the regular budget process to identify any critical consequences from the reduction and determine if there is a better way to achieve savings.

The Department of Health Services (DHS) indicates that the estimated impact to the County for FY 2008-09 is a reduction of \$11.14 million for outpatient services reimbursed by Cost Based Reimbursement Clinics payments, which will result in a reduction of 30,580 outpatient visits. The estimated impact of the rate reduction for Managed Care payments is \$1.6 million for the County's directly operated health facilities.

The LAO recommends that the Legislature reject the Governor's proposed reductions for all providers except hospitals because they might reduce patient access to care or cause patients to obtain care through other more costly means, such as emergency rooms. The LAO indicates that physicians have not received rate increases since the FY 2000-01 budget year, while Medi-Cal rates are adjusted annually for some providers. Hospitals that contract to provide Medi-Cal services received rate increases averaging 4.7 percent annually between 2000 and 2006. The LAO also notes that the Medi-Cal Waiver is estimated to provide increased payments of hundreds of millions of dollars annually to the largest public hospitals in the State.

Alternative Budget Recommendation: The LAO suggests that the Legislature consider ways to implement rate reductions that would least disrupt the provision of services rather than reducing rates by 10 percent across the board. For example, the Legislature may reduce the percentage of the overall proposed rate reduction or only apply the reduction to providers that have received recent rate increases.

The LAO also recommends the enactment of legislation to implement a pay-for-performance program for Medi-Cal managed care plans to link fiscal incentives for medical service providers to measures of access, quality, and efficiency, giving providers an incentive to provide efficient, effective, and appropriate medical care. The LAO estimates that implementation of a pay-for-performance

program in Medi-Cal could reduce State General Fund costs by tens of millions of dollars annually and significantly improve care for patients.

Federal Safety Net Care Pool Payments (SNCP) and South L.A. Preservation Fund. The Governor's Proposed Budget would shift \$54.2 million in FY 2008-09 of SNCP and South L.A. Preservation Fund payments from designated public hospitals to the portions of the California Children's Services (CCS), Genetically Handicapped Persons, Medically Indigent Adult Long-Term Care, and Breast and Cervical Cancer Treatment programs, which are eligible for these funds. This shift will allow a corresponding reduction in the State General Fund for these programs.

The LAO recommends that the Legislature approve the shift of Federal hospital payments to these other State-funded programs.

Alternative Budget Recommendation: The LAO further recommends that the Legislature shift additional Federal funds from public hospital payments to offset State general fund spending for the following programs: Expanded Access to Primary Care, CCS, Genetically Handicapped Persons Program, the Medically Indigent Adult Long-Term Care Program, and certain clinic grant programs, for an additional State savings of \$91 million in FY 2008-09.

DHS notes that the LAO's narrative describing the recommended funding reductions for the SNCP and South L.A. Preservation Fund and the financial chart in the report are inconsistent. DHS is contacting the LAO to clarify their proposal. The Department's initial estimate of the impact to the SNCP, absent that clarification, ranges from \$91 million to \$144 million statewide. The impact to DHS is estimated to range from \$40 million to \$63 million.

Trauma Care Fund. The Budget does not restore the \$10 million funding allocation for trauma care services which was vetoed by the Governor in FY 2006-07.

The LAO does not provide any comments or recommendations.

PUBLIC HEALTH

Alternative Budget Recommendation: The LAO recommends the consolidation of certain public health categorical programs into a block grant and the enactment of legislation to direct the California Department of Public Health (CDPH) to develop a model consolidated contract for those public health programs within the following categories: chronic disease prevention, communicable and infectious diseases, county health services, emergency preparedness, environmental health, family health, and HIV/AIDS.

The LAO notes that the State's current process for administration and funding of over 30 public health programs at the local level is fragmented, inflexible, and

fails to hold local health jurisdictions accountable. The LAO further recommends that outcome measures for these programs be developed and that CDPH work with counties interested in using a consolidated contract.

HIV/AIDS Treatment and Prevention. The Governor's Budget reduces State support and local assistance by \$11 million in FY 2008-09 for AIDS programs including AIDS Education and Prevention, AIDS Epidemiology Studies and Surveillance, AIDS Drug Assistance, HIV Counseling and Testing, Therapeutic Drug Monitoring Program, Early Intervention Programs, and Medicare Part D. The proposed reductions assume that the State will continue to meet the Federal maintenance-of-effort requirement for receipt of Ryan White Act funds. According to the Department of Public Health (DPH), the estimated impact to the County is a loss of approximately \$1.0 million in FY 2008-09.

Alternative Budget Recommendation: In addition to consolidating these programs within a block grant, the LAO recommends that the Legislature allow the HIV/AIDS Pharmacy Pilot Program to sunset on June 30, 2008 and redirect the \$2.7 million from this program to the AIDS Drug Assistance Program. The HIV/AIDS Pharmacy Pilot Program helps to ensure that patients comply with their medication regimen. While noting that coordinating care is important, the LAO indicates that the continued provision of direct services is a higher priority.

Family Health Programs. The Governor's Budget proposes a reduction of \$5.4 million in FY 2008-09 which includes State support and local assistance funding for case management services for at-risk teens, domestic violence prevention, and education activities including breastfeeding, nutrition, and Sudden Infant Death Syndrome risk reduction.

According to DPH, preliminary information indicates a ten percent reduction in Maternal, Child, and Adolescent Health (MCAH) and Black Infant Health Programs. MCAH anticipates a local program reduction of \$202,000 (including \$101,000 in Federal Title XIX funding) which may impact approximately 75 clients. Marginal indirect program and fiscal impacts of approximately \$49,000 are anticipated to result from reduced travel, training and related items.

The LAO does not provide any additional comments or recommendations beyond the recommendation to consolidate many of these programs into a block grant.

Local Chronic Disease Programs. The Governor's Budget proposes a reduction of \$3.3 million in FY 2008-09 for State support and local assistance funding for cancer and injury prevention surveillance activities, developing public health interventions, and monitoring environmental contaminants.

The LAO does not provide any additional comments beyond the recommendation to consolidate many of these programs into a block grant.

Alcohol and Other Drug Programs. The Governor's Proposed Budget reduces funding by \$16.1 million in FY 2008-09 for Alcohol and Other Drug Programs, primarily through a reduction in Drug Medi-Cal provider rates. The number of Drug Medi-Cal programs to be monitored and administratively supported will remain the same. However, total program funds for the County will decrease by approximately \$6.6 million in FY 2008-09. This will result in a rate reduction for contracted services.

The LAO does not provide any comments or recommendations.

Proposition 36. The Governor's proposed reduction for Proposition 36 is \$10 million in FY 2008-09. The reduction will not change the sentencing law requirement under Proposition 36. The impact to the County is estimated to be \$2.6 million in FY 2008-09. These reductions will be passed on to the community-based agencies. For both the Substance Abuse Crime Prevention Act (Proposition 36) and Substance Abuse Offender Treatment Program, there will be a loss of 16,770 residential bed days and 203 outpatient slots in FY 2008-09, resulting in fewer clients being served.

The LAO recommends that the Legislature reject this reduction and instead fund this program at the 2007 Budget Act level. The LAO indicates that the Governor's proposal to reduce Proposition 36 funding in both FY 2007-08 and FY 2008-09 is likely to result in offsetting increases in State criminal justice system and child welfare services costs.

Alternative Budget Recommendation: The LAO further recommends that the Legislature consider alternative funding sources for Proposition 36 including: 1) redirecting advertising funds from the California Methamphetamine Initiative, and 2) using a portion of proceeds from State and Federal narcotic asset forfeitures.

DPH agrees that many of the State's drug treatment services including Proposition 36 and drug courts have proven to reduce costs in other State programs, such as the California Department of Corrections and Rehabilitation, and that cuts to these programs are not cost-effective.

Substance Abuse Offender Treatment Program (OTP). The Governor's Budget proposes a \$2.0 million reduction for the Substance Abuse Offender Treatment Program for FY 2008-09. This program serves offenders eligible for treatment under Proposition 36. The impact to the County is estimated at \$499,000 in FY 2008-09. The reduction in OTP funds will also result in a reduced local match, as ADPA is using Statham funds for the match.

The LAO does not provide any comments or recommendations.

Other State-Funded Programs. The impact of the Governor's proposal on the County for Drug Court funding is estimated at \$643,000 in FY 2008-09. The impact to the Perinatal Program is estimated at \$606,000 in FY 2008-09. This translates to a loss of 1,411 residential bed days and 62 outpatient slots in FY 2008-09. A reduction in the State General Fund contributions is estimated to reduce funding to the County by \$178,000 in FY 2008-09. The estimated impact is a loss of 1,410 residential bed days and 12 outpatient slots in FY 2008-09.

The LAO recommends that the Legislature reject these funding reductions and instead fund these programs at the FY 2007-08 Budget Act level. The LAO indicates that the Governor's proposal to reduce county drug court funding in both FY 2007-08 and FY 2008-09 is likely to result in offsetting increases in State criminal justice system and child welfare services costs, including State prison expenditures. The LAO does not provide any comments or recommendations regarding the Perinatal Program.

Alternative Budget Recommendation: The LAO further recommends that the Legislature consider alternative funding sources for County Drug Courts including: 1) redirecting advertising funds from the California Methamphetamine Initiative, and 2) using a portion of proceeds from State and Federal narcotic asset forfeitures.

Children's Medical Services. In FY 2008-09, the Governor has proposed reductions for these programs of \$28.3 million. The County's California Children's Services (CCS) program estimates this reduction will result in a \$1.8 million decrease in State General Fund for the program in FY 2008-09. The reduction in State General Funds will result in the reduction of \$2.7 million in Federal Funds (Title XIX), resulting in a combined impact to the County of \$4.5 million. The County CCS program serves one-third of the entire State CCS program's medically fragile clientele. The Legislature instead approved a reduction in payments to CCS providers of \$10 million in FY 2008-09, effective July 1, 2008. CCS indicates that the impact remains \$4.5 million.

The LAO does not provide any comments or recommendations.

Tuberculosis (TB) Control Program. The Governor's Budget proposes a 10 percent reduction in FY 2008-09 through a decrease in the State TB Subvention grant award. In FY 2007-08, the State grant award to the County totaled \$1.5 million. The reduction of approximately \$151,000 will impact Community Health Services in the delivery of Directly Observed Therapy and will impact the TB Control Program in the delivery of program assurance, assessment, and policy development.

A State funding reduction for Food, Shelter, Incentives & Enablers (FSIE) will cause more costs to be invoiced against County funds (\$300,000) designated for FSIE. In recent years, the State FSIE supported over 80 percent of the costs associated with

delivery of FSIE. Use of County funds may increase from \$70,000 to \$100,000 per year, still far below the total amount allocated.

The LAO does not provide any additional comments beyond the recommendation to consolidate this program into a block grant.

The DPH TB Control Program indicates that when Federal funding for TB Prevention and Control transitioned from categorical grants to block grants in the late 1970s, funding for the TB Control Program dramatically decreased, contributing to the resurgence of TB, and multi drug-resistant TB, in the 1980s.

Immunization Program. The Governor's Budget proposes a funding reduction to the County of \$827,000 as part of a Statewide 10 percent funding reduction. Impacts include reductions to: implementation of Quality Improvement and Quality Assurance interventions with immunization providers and outreach efforts to immunization providers serving adolescents and adults; a decreased ability to evaluate remaining interventions and program activities; elimination of media campaigns in support of influenza vaccinations and National Infant Immunization Week/Toddler Immunization Month; and a reduction in the availability of educational and promotional materials.

The LAO does not provide any additional comments beyond the recommendation to consolidate this program into a block grant.

MENTAL HEALTH

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The Governor's Proposed Budget would reduce EPSDT by \$46.3 million in FY 2008-09. The program provides comprehensive and preventive health services, including mental health services, to Medi-Cal recipients under the age of 21. Reductions would be achieved by requiring prior authorization by mental health providers for EPSDT day treatment that exceeds six months, eliminating the annual cost-of-living increase, and reducing the non-inpatient State Maximum Allowance. In addition, it delays \$92 million for the quarterly advance to counties for the EPSDT Program from July 2008 to September 2008. The Legislature only approved elimination of the EPSDT program annual cost-of-living increase for a savings of \$1.9 million in FY 2007-08 and \$7.5 million in FY 2008-09 and reductions of \$1.8 million in FY 2007-08 and \$7.1 million in FY 2008-09 from improved California Department of Mental Health oversight.

The Department of Mental Health (DMH) estimates that the reduction in the EPSDT cost-of-living increase would result in a loss of \$2.2 million in FY 2008-09. However, DMH indicates that the COLA was not budgeted in the current year or anticipated in the upcoming budget year.

The LAO does not provide any comments or recommendations.

Mental Health Managed Care. The Governor's Proposed Budget would reduce funding by \$23.8 million in FY 2008-09 for Mental Health Managed Care primarily by eliminating the annual cost-of-living increase and reducing the non-inpatient State Maximum Allowance. The estimated impact to the County is \$7.1 million in FY 2008-09. DMH indicates that this reduction will result in curtailment of services to approximately 5,000 individuals.

Alternative Budget Recommendation: Because the cost of mental health drugs in the Medi-Cal Program continues to grow, the LAO further recommends that the Legislature consider: 1) encouraging county participation in the California Mental Health Care Management (CalMEND) Program; and 2) expanding the use of fixed annual allocations to counties that include the cost of prescription drugs. Counties could receive a direct share of the savings to the State or a financial incentive from other sources such as Proposition 63 funds. The LAO estimates State General Fund savings of \$5.0 million annually by reducing inappropriate prescribing practices.

DMH indicates that it has already made significant progress in restricting the use of polypharmacy, which is the prescribing of multiple psychotropic or anti-psychotic medications, with the use of newer anti-psychotic medications. The Department monitors each child in foster care who receives polypharmacy.

SOCIAL SERVICES

Child Welfare Services

Child Welfare Services (CWS) Administration. The Governor's Budget proposes an 11.4 percent reduction in county funding for CWS Administration for a State savings of \$83.7 million and assumes a reduction of \$45.9 million in Federal funds for a total reduction of \$129.6 million.

The projected impact of the 11.4 percent reduction in the Waiver portion of the CWS Administration allocation would result in the loss of \$17.9 million in State revenue to the County with no impact on Federal revenue. The reduction in the non-Waiver CWS allocation would result in the loss of \$5.0 million in State revenue and \$2.7 million in Federal revenue in FY 2008-09.

Alternative Budget Recommendation: The LAO provides three alternatives to the Budget proposal which offer less budgetary savings, but are less likely to negatively impact services for children: 1) hold the number of county caseworkers at the prior year level when the caseload declines, known as "hold harmless." Under this option, the CWS case-management funding would remain at the FY 2007-08 level for 29 counties whose caseload declined for an estimated State General Fund savings of \$6 million; 2) cap the total cost per social worker at \$155,000 for a estimated State General Fund savings of \$5.1 million; or

3) implement a smaller across-the-board reduction in conjunction with the “hold harmless” and social worker cap for an estimated State General Fund savings of \$33.1 million.

Payments to Foster Care Providers. The Governor's Budget proposes a reduction in maintenance payments to Foster Family Agencies (FFA), Group Homes (GH), Foster Families Homes (FFH), and Seriously Emotionally Disturbed, specialized care, clothing allowance, Emergency Assistance Foster Care, Adoptions Assistance Program (AAP) and Kin-GAP effective June 1, 2008 for State savings of \$168.1 million in FY 2008-09.

In FY 2008-09, this proposal would result in a projected reduction in County expenditures of \$65.4 million. While the proposal would reduce County expenditures, it would reduce funding available for foster care children and adversely impact the ability of providers to care for these children. Some providers may choose not to provide critical services due to the financial hardship. This would result in negative outcomes for children in Los Angeles County who are already the most vulnerable children and who have been victims of abuse and/or neglect.

The LAO comments that this proposal could reduce the number of foster care providers, lead to increased placements in more expensive settings, and result in longer foster care placements.

Alternative Budget Recommendation: The LAO recommends that the Legislature rescind the five percent rate increase for FFH, GH, Kin-GAP, and new AAPs approved in the 2007 Budget Act effective January 1, 2008 for an estimated State General Fund savings of \$17 million. The LAO also recommends that the Legislature consider reducing the FFA rate by five percent for an estimated State General Fund savings of \$6.6 million.

Adult Services

Adult Protective Services (APS). The Governor's Budget proposes to reduce funding by 10 percent in FY 2008-09 for a State savings of \$6.1 million and assumes the additional loss of \$5.3 million in Federal Medicaid reimbursements for health-related services provided under APS for a total reduction of \$11.4 million. The estimated reduction to the County is \$2.6 million. The Budget proposal would result in the reduction of staff and funding for other APS-related service providers including the District Attorney, Consumer Affairs and the Department of Health Services. The staff reduction will result in increased caseworker response time, placing vulnerable elderly and dependent adults at greater risk of abuse and neglect.

The LAO does not provide any comments or recommendations.

Senior Nutrition Programs. The Governor's Budget proposes to reduce funding for congregate and home-delivered meals by \$569,000 for FY 2008-09. The proposed

reduction would result in an estimated annual loss of 5,234 congregate meals and 3,326 home-delivered meals for seniors living in Los Angeles County.

The LAO does not provide any comments or recommendations.

Medi-Cal

Medi-Cal Administration. The Governor's Budget proposes to reduce counties administration by \$142.2 million by:

- Reducing the county administration base by 2.5 percent for a State General Fund savings of \$15.3 million and total reduction of \$30.6 million combined State and Federal funds;
- Eliminating the county administration caseload growth for a State General Fund savings of \$33.4 million and a total reduction of \$66.8 million combined State and Federal funds; and,
- Eliminating the cost-of-living adjustment for eligibility workers, administrative and support staff for a State General Fund Savings of \$22.4 million and a total reduction of \$44.8 million combined State and Federal funds.

The projected impact of the reduction in funding to the DCFS share of the Los Angeles County allocation would result in a loss of \$1.6 million in State revenue and a reduction of budgeted positions. The Department of Public Social Services (DPSS) would realize a 2.5 percent reduction in administrative funding and elimination of a Medi-Cal cost of living adjustment resulting in an estimated loss of \$22.5 million and a reduction of budgeted staff and supervisory positions. The elimination of caseload growth funding would result in an estimated loss of \$26.0 million. The lack of caseload growth funding would result in existing Medi-Cal Eligibility Workers absorbing the increased workload and corresponding higher average caseloads.

The reduction in Medi-Cal administration funding will directly impact the County's ability to determine Medi-Cal eligibility for low-income families and children. The proposals will also limit the County's ability to continue outreach services to enroll eligible families in both the Medi-Cal and Healthy Families programs.

The LAO recommends eliminating the cost-of-living adjustment for counties for an estimated savings of \$32.3 million in FY 2008-09. This estimate is higher than the Governor's projection due to higher than anticipated growth in the California Necessities Index which is a specialized consumer price index tailored to assess the needs of the poor.

Medi-Cal Eligibility Determination. The Governor's Budget proposes to eliminate continuous 12-month eligibility for children and to reinstitute quarterly reporting for both

children and parents resulting in a State savings of \$92.2 million. Currently, children's eligibility is determined annually; eligibility for parents is determined semi-annually. This proposal would affect approximately 52,465 children in Los Angeles County placing them at risk of losing health care benefits.

The LAO recommends that the Legislature adopt this proposal, and adjusts estimated State General Fund savings to \$69.0 million to account for increased costs associated with determining eligibility for recipients who reapply for Medi-Cal benefits.

Alternative Budget Recommendation: The LAO also recommends that the Legislature: 1) centralize Medi-Cal eligibility determinations at the State level effective in FY 2009-10 for estimated savings of \$75 million beginning in FY 2009-10; and 2) reduce funding for County administration of the Deficit Reduction Act citizenship verification requirements for a State General Fund savings of \$6.0 million.

In-Home Supportive Services (IHSS)

IHSS Service Reduction. The Governor's Budget proposes to reduce IHSS domestic services including meal preparation, clean-up, laundry and food shopping by 18 percent in FY 2008-09 for an estimated State savings of \$109.4 million. The Governor's proposal would impact an estimated 161,000 IHSS consumers in Los Angeles County who would lose an average of 6.6 hours of service per month for each recipient. The proposed reduction in hours would result in an estimated net County cost savings of \$23.0 million.

The LAO comments that recipients will have the ability to request a restoration of service hours if they believe they are at serious risk of out-of-home placement. If these requests are approved, the savings will be less than those projected in the proposed Budget. In addition, the proposal does not include administrative or computer reprogramming costs to implement the reduction in service hours.

Alternative Budget Recommendation: The LAO recommends that the Legislature consider the following options for achieving cost savings in the IHSS Program: 1) cap hours for certain IHSS domestic services and prohibit exceptions; 2) establish differential hours for recipients who live with a family member and those living alone; and 3) enact legislation before FY 2010-11 to establish tiered reimbursement rates for IHSS providers based on training, experience and willingness to undergo a criminal background check.

IHSS Administration. The Governor's Budget proposes to reduce county administrative funding by 10 percent in FY 2008-09 by allowing counties to delay reassessments of eligibility to IHSS recipients up to 18 months. The Budget assumes a total Statewide savings of \$28.7 million which includes the loss of \$14.2 million in

Federal Medicaid reimbursements. The IHSS program remains under-funded as the State has not granted cost of doing business adjustments for human services programs, including IHSS, since June 2001. The estimated loss to the County is approximately \$8.5 million. This would necessitate the reduction of budgeted positions.

The LAO recommends that the Legislature adopt this proposal, but comments that the proposal may not result in the projected savings because it does not change the recipient's ability to request a reassessment of services at any time. The LAO notes that as more time passes, recipients may experience changes in their conditions which may require social workers to perform more assessments than would be funded under the Budget proposal. Therefore, the LAO reduces the estimated State General Fund savings from \$14.5 million to \$10.2 million.

CalWORKs

CalWORKs Reforms. The Governor's Budget proposed reforms to the CalWORKs Program, effective June 1, 2008, for an estimated State savings of \$389.1 million in FY 2008-09 by: 1) reducing the child-only portion of the CalWORKs grant by 50 percent when the adult does not comply with work requirements for an accumulated total of six months and terminating the remaining grant amount when the adult remains non-compliant for a total of 12 months; 2) eliminating the child-only portion of the CalWORKs grant when the able-bodied parent reaches the 60-month time limit unless the parent meets the Federal work participation requirements; and, 3) imposing a 60-month time limit to CalWORKs assistance to children when the unaided parent is an undocumented non-citizen, a convicted drug felon or a fleeing felon. This will result in an estimated loss of State General Funds to the County of \$113 million in FY 2008-09. The proposed reforms could potentially impact 78,000 children.

Alternative Budget Recommendation: The LAO recommends the following alternatives to the Governor's CalWORKs proposals to retain core program services and increase work participation rates, but with less budget savings: 1) implement a Pre-Assistance Program for Entering CalWORKs Participants in which eligible families would be placed in this program for up to 120 days. Families would receive help to become employed or sign a welfare-to-work plan as a condition of moving into the CalWORKs program; and 2) require adults who have reached the 60-month time limit to work in non-subsidized employment or accept a subsidized employment or community service job to meet the Federal 20 hours per week work participation rate.

Work Incentive Nutritional Supplement. The Governor's Budget proposes \$8.4 million to provide a \$40 per month supplement effective January 1, 2009 to working families who are not on CalWORKs, but who are working sufficient hours to

meet the Federal work participation requirement. The benefits would be provided in the form of additional Food Stamp benefits.

The LAO recommends that the Legislature adopt this proposal because it is a cost-effective way of increasing the CalWORKs work participation rate.

LEADER. The Governor's Budget proposes \$12.6 million for LEADER and \$1.3 million for the LEADER replacement system.

Alternative Budget Recommendation: LEADER is one of four California Welfare Automation Consortia. The LAO recommends that the Legislature consider reducing the number of consortia from four to two systems.

Child Support

Federal Child Support Incentive Payments. The Governor's Budget proposes \$29.8 million State General Fund to maintain funding for local child support agencies due to provisions in the Federal Deficit Reduction Act of 2005 which prohibit the State from claiming Federal matching funds using earned Federal incentive payments. The estimated County share of combined State and Federal funding is \$18.1 million.

The LAO does not provide any comments or recommendations.

Child-Support Disregard. The Governor's Budget proposes to increase the amount of the child support collection passed through to CalWORKs families from \$50 per month to \$100 per month effective January 1, 2009 as allowed under the Federal Deficit Reduction Act of 2005. The Child Support Services Department reports that an average of 8,807 CalWORKs families per month received a disregard payment in 2007. This proposal would increase available resources for CalWORKs families.

The LAO recommends delaying this proposal until July 2010 thereby saving \$5.6 million in State General Fund revenue in FY 2008-09 and \$11.2 million in FY 2009-10.

PUBLIC SAFETY AND JUSTICE

Juvenile Probation Camps. The Governor's Budget proposes a 10 percent reduction in Statewide funding of \$201 million for juvenile camps. The proposed reduction would result in an \$8 million decrease to the County.

The LAO proposes to increase funding for this program to \$304 million by shifting funding from the Juvenile Justice Crime Prevention Act (JJCPA) grant. This consolidation is proposed because the LAO considers funding for JJCPA to duplicate funding for juvenile probation camps.

Juvenile Justice Crime Prevention Act Program. The Governor's Budget proposes a 10 percent reduction in funding for the JJCPA program. The impact to the County is estimated at \$3.3 million.

Approximately \$615,000 of the funds are allocated through the Probation Department to the Department of Parks and Recreation. The reduction in the Governor's Budget would reduce this funding by approximately \$62,000. These funds are currently being expended for after school enrichment programs.

The LAO proposes the elimination of this program because it is duplicative of the juvenile camp funding grant and would consolidate these funds with Juvenile Probation Camp funding.

Citizens' Option for Public Safety (COPS). The Governor's Budget proposes a 10 percent reduction in funding for the COPS grant. This grant provides funding to the Sheriff and District Attorney's offices. The grant is expected to result in a reduction to the County of \$500,000 for each department.

The LAO proposes the elimination of this program because it lacks goals and performance measures. This would result in Statewide savings of \$119 million.

Booking Fees. The Governor's Budget proposes a 10 percent reduction in the booking fee subvention to counties. This subvention is in lieu of a county booking fee charge to cities that utilize the booking services at the county jail. Under current law, counties are able to impose fees by a proportional amount to reimburse itself for the lost revenue.

The LAO proposes the elimination of the booking fee subvention. This would allow the County to begin to charge booking fees to cities in an amount sufficient to cover its costs. The LAO estimates that this change would reduce the number of city initiated bookings into county facilities.

OTHER PUBLIC SAFETY AND JUSTICE

Summary Parole. The Governor proposes to shift lower-risk parolees into a "summary" parole system in which the parolee would not be returned to prison for technical violations.

The LAO does not recommend the Administration's summary parole proposal.

Early Release. The Governor proposed the early release from prison of those inmates with less than 20 months remaining on their sentence.

The LAO does not recommend the Administration's early release proposal.

Alternative Budget Recommendation: **Reclassification of Lower Level Felonies.** As an alternative to early release and summary parole, the LAO recommends a change in law to make crimes characterized as wobblers that can either be a misdemeanor or felony, to be considered misdemeanors. Based upon the prison population on December 31, 2006, the LAO estimates 31,428 felons would not be in State prison if the Legislature adopted this proposal. Since these individuals would now be found guilty of a misdemeanor, they would likely be sent to a county jail.

Vertical Prosecution Grants. The Governor's Budget proposes a 10 percent reduction in Vertical Prosecution Grant funds to counties.

The LAO recommends elimination of these grants for a savings of \$15 million.

Other Public Safety Grant Reductions. The LAO also proposes reductions to the High Technology Theft Apprehension and Prosecution Program, California Multi-Jurisdictional Methamphetamine Enforcement Team, and Sexual Assault Felony Enforcement Team grants. According to the Sheriff's Department, these programs provide assistance to the Department in addressing high technology crime, methamphetamine production and distribution, and the apprehension of serial sex offenders within the County.

Funding for New Courthouse Construction. The Governor's Budget proposed the funding of four new courthouse projects as part of a \$2 billion general obligation bond. The Southeast Los Angeles Courthouse project is one of those to be funded by this bond and is scheduled for completion by 2013.

The LAO recommends withholding the funding for these courthouses as the transfer of two existing courthouses, including the Southeast Los Angeles Courthouse, has not yet taken place and the statute authorizing the transfer has expired. We anticipate that the County will be authorized to transfer the courthouse under the provisions of AB 1491 (Jones) currently under consideration in the Assembly.

GENERAL GOVERNMENT

February 2008 Presidential Primary. The Governor's Budget does not include funding for the February 2008 Presidential Primary Election. Legislative intent to reimburse counties for the cost of this election was provided in SB 113 (Chapter 2, Statutes of 2007).

The LAO does not provide any comments or recommendations.

Elections. The Governor's Budget includes \$42.3 million in Federal funds for the Secretary of State to continue the implementation of Help America Vote Act (HAVA). Of

this amount, \$38.8 million is designated to implement the VoteCal voter database system and \$3.5 million for other HAVA activities including assistance for disabled voters, voter education, voting systems and certification, interim voting systems, and administration. The Registrar Recorder/County Clerk indicates that the County will incur minimal administrative costs.

The LAO does not provide any comments or recommendations.

California State Library. The Governor's Budget proposes a reduction of \$5.1 million in State support to local libraries for FY 2008-09. The reduction includes: \$1.6 million related to State operations; \$1.4 million in the transaction-based reimbursement program (TBR); and \$1.4 million in the Public Library Foundation Program. The estimated impact to the County is \$140,000, which would reduce the Library's books and materials budget countywide. The impact of the \$1.4 million reduction to TBR is more difficult to quantify as the revenue from that program varies from year to year. The estimated loss to the County is \$50,000. In addition, the Public Library may realize a reduction of informational and support services provided by the State Library as a result of the \$1.6 million general reduction to the State Library's budget.

The LAO does not provide any comments or recommendations.

Military and Veteran Programs. The Governor's Budget proposes a reduction of \$523,000 within the California Department of Veteran's Affairs for veterans' claims and subvention to counties. The proposed reduction will affect outreach efforts and local assistance to veteran service offices throughout the County. The estimated County impact is \$29,000.

The LAO does not provide any comments or recommendations.

Subventions for Open Space Act. The Governor's Budget proposes a \$3.9 million reduction for FY 2008-09 from the Subventions for Open Space Act (Williamson Act) Tax Relief Program. The Williamson Act authorizes any city or county to enter into a contract with the owner of agricultural land for the purpose of preserving that land in accordance with the conditions established by the Act and that contract. The estimated impact on the County from this reduction is \$4,000.

The LAO supports the \$3.9 million reduction and additionally recommends phasing out subventions for open space through legislation to prohibit the State from renewing or entering into new Williamson Act contracts. According to the LAO, the Williamson Act is not a cost-effective land conservation program because it often subsidizes landowners for actions that they would have taken in the absence of this program.

State Mandated Local Programs. The Governor proposed special session legislation to eliminate local government's authority to submit estimated cost claims. Instead, local

governments would submit actual costs claims. The State Controller's Office (SCO) would review the actual costs claims and report them to the Administration and Legislature for inclusion in the upcoming budget. For example, local governments would receive payments for mandated activities undertaken in FY 2007-08 in FY 2009-10 rather than FY 2008-09.

The LAO states that deferring mandate payments one additional year would enable the SCO to avoid reviewing and filing each local government's annual claim twice and therefore, these benefits outweigh the loss to local governments from less timely reimbursement of payments.

The Auditor Controller indicates that the arguments in favor of this proposal revolve around reducing the workload for the SCO, but would further delay reimbursement of County claims.

Animal Care and Control. The LAO proposes to eliminate the animal adoption mandate (Chapter 752, Statutes of 1998) regarding shelter care for stray and abandoned animals. According to the LAO, this action would eliminate the State's obligation to reimburse local governments for their increased cost of caring for animals they euthanize because the goal of increased animal adoptions by holding animals for longer periods is not being met.

The Department of Animal Care and Control indicates that the elimination of this mandate would result in additional County costs.

TRANSPORTATION

Public Transportation Account Funds. As a result of a court ruling (Shaw v. Chiang) related to the proper use of Public Transportation Account funds, \$409 million from the Public Transportation Account was redirected to the Home-to-School Transportation program which is deemed to be an appropriate use.

The LAO does not provide any recommendation, but indicates that the State's use of the remaining \$779 million in transit funding that was contested in the lawsuit was upheld by the court.

Maintenance and Rehabilitation Funding. The LAO indicates that as the State highway system ages, the costs to maintain and rehabilitate State highway miles are increasing much faster than the revenues which pay for them.

The LAO recommends that the Legislature: 1) raise the State gas tax by at least 10 cents per gallon and index it for inflation to prevent further erosion of revenue over time; 2) consider taxing alternative fuels (such as ethanol and natural gas) which are taxed at a lower rate than gasoline and diesel fuel; and 3) explore mileage-based fees and additional toll roads.

OTHER ITEMS OF INTEREST

State Parks. The Governor's Budget proposes a reduction of \$13.3 million in FY 2008-09 for the California Department of Parks and Recreation. The proposed reductions would result in the elimination of positions and the closure of 48 State parks including five facilities located in Los Angeles County. The affected State parks are Topanga State Park, Will Rogers State Historic Park, Pío Pico State Historic Park, Santa Susana Pass State Historic Park, and Los Encinos State Historic Park.

The LAO recommends the California Department Parks and Recreation increase visitor fee revenue by \$25 million and adopt updated user fee schedules at specified non-off-highway vehicle State parks to achieve the revenue increase. The LAO indicates that the department should direct fee increases to high-demand State parks to minimize any potential impact on attendance and structure the revenue increase to mitigate the impact on facilities visited by more low-income park visitors. The LAO recommends using \$13.3 million of the revenue increase to offset the Governor's proposed reduction in General Fund support for the State Park System, thereby avoiding any State park closures in the budget year. In addition, the LAO recommends using the remaining \$11.7 million in increased user fee revenues to augment the Department's maintenance budget.

Housing Bond – Proposition 1C. The Governor's Budget proposes to award \$771 million to various programs authorized by Proposition 1C, which represents a decrease of \$202 million from FY 2007-08. The Community Development Commission indicates that given the competitive nature of the funds, there is an unknown impact to the County.

The LAO does not provide any comments or recommendations.

California Coastal Commission. The Governor's Budget proposes a reduction of \$1.2 million in FY 2008-09, including a decrease in State general funding of \$956,000 for the Coastal Management Program. According to the Department of Beaches and Harbors, the proposed program reduction may delay coastal development permits for Marina del Rey waterside improvements and appeals of landside improvements, which in turn would delay the increase in Marina revenues anticipated from various redevelopment projects.

The LAO recommends giving the California Coastal Commission the authority to retain fee and penalty revenues collected for coastal management activities including issuing and enforcing permits for coastal development. The LAO also recommends that the Commission's permitting and enforcement costs be recovered to the extent practical from fees and other non-General Fund sources. Furthermore, the LAO recommends enactment of legislation to establish a special fund for the deposit of fee and penalty revenues, with expenditures from the special fund subject to appropriation by the legislature.

Water and Flood Control. DPW expects increased fees for permits and delays in State Agency reviews to compensate for the 10 percent reduction in State Department General Funds and reduction or ineligibility of State grants for projects and studies. The 10 percent reduction to State agencies for FY 2008-09, including the Resources Agency, State Water Resources Control Board, Department of Fish and Game (DFG), and the California Environmental Protection Agency, may have several direct and/or indirect impacts on DPW depending on which agency receives the cut and the nature of DPW's business with the affected State agency.

DPW indicates that reduction of the DFG Enforcement Program could impact the ability of DPW to obtain necessary environmental permits which has already been an issue for the past several years. In addition, impacts would involve RWQCB, an issuer of major permits including 401 Water Quality Certification permits and National Pollutant Discharge Elimination System permits.

The LAO recommends the Legislature enact a flood management fee on the broad segment of the State's population that benefits from the Department of Water Resources' flood management activities currently funded from the General Fund and reduce the amount in the proposed budget by \$40 million to be replaced by the revenue from the fees. The LAO indicates that there are a number of options for structuring the fee, including imposing fees based on current federal flood-zone designation, or seeking a more broad-based fee to include those jurisdictions with locally determined flood zones designations, and taking into account the protection afforded to the property owner by the State Central Valley flood control system.

Integrated Regional Water Management Program. Propositions 1E and 84 provide a combined \$1.3 billion for integrated regional water management (IRWM) programs, the majority of which is for local assistance. Of this amount, about \$900 million from Proposition 84 is allocated among 11 identified regions, while \$100 million is for interregional projects. Under Proposition 1E, \$300 million is allocated for stormwater-related projects that are consistent with any applicable IRWM plan. Many types of projects would be eligible for bond funding under the broad definition of IRWM, including regional water storage, water quality, stormwater projects, canal lining, and drinking water projects.

The LAO indicates that the Department of Water Resources should move forward with its efforts to implement the bond-funded IRWM program by establishing guidelines necessary for awarding grants, and submitting these guidelines for legislative review. The LAO recommends rejection of most of the integrated regional water management budget proposals because program guidelines and legislative policy direction are needed prior to awarding grants, except for the \$2.5 million needed to complete the IRWM guidelines.

State Water Supply. The LAO indicates that the budget includes substantial funding (mostly bond funds) for proposals to increase the reliability of the State's water supply and that the multiple water supply and conveyance proposals build on existing funding for water supply reliability programs and studies funding by the Department of Water Resources. The LAO recommends joint budget and policy hearings on the State's water supply given major budget proposals as well as recent events significantly impacting water supply and deliveries, and recommends the Legislature withhold action on storage and conveyance funding proposals in the Budget until after the hearing.

State Water Resources Control Board. The LAO indicates that the budget proposes approximately \$152 million for the board's "core" regulatory and water quality management programs, and for water rights regulations.

The LAO recommends applying the polluter pays funding principle more fully to the board's core water quality and water rights programs by: 1) increasing existing fees to fully cover regulatory program costs; and 2) enacting a new broad-based fee to fully fund water quality management programs. The LAO indicates that adopting this proposal would result in \$30.6 million in General Fund savings beyond the Governor's Budget proposal.